High Quality Ingredients Make Excellent Food...

Management Discussion and Analysis of the Operations

RESTAURANT OPERATION

The results of the restaurant operation, including inter-company transactions with the bakery operation, are summarized as follows:

	2005 HK$'000	2004 HK$'000	Changes +/(-)
Turnover	**417,260**	406,936	2.5%
Other revenues	**6,420**	9,065	(29.2%)
Costs of inventories consumed	**(125,688)**	(120,889)	4.0%
Staff costs	**(148,427)**	(141,236)	5.1%
Operating lease rentals	**(45,882)**	(42,475)	8.0%
Depreciation and impairment losses of fixed assets	**(20,252)**	(16,747)	20.9%
Other operating expenses	**(86,528)**	(86,714)	(0.2%)
Amortization of intangible assets	**–**	(155)	(100.0%)
Operating (loss)/profit from ordinary operating activities	**(3,097)**	7,785	(139.8%)
Reversal of impairment losses, revaluation gain and gain on disposal of properties	**24,197**	1,645	1370.9%
Operating profit	**21,100**	9,430	123.8%
Share of net profits of associated companies	**1,641**	487	237.0%
Profit before taxation	**22,741**	9,917	129.3%
Shop area – sq. ft. at year end	**150,400**	158,400	
No. of outlets at year end	**18**	19	

Management Discussion and Analysis of the Operations

RESTAURANT OPERATION
(continued)

Our restaurants did not benefit from the market recovery brought about by various administrative policies to revive the economy after SARS. Our ordinary restaurant activities deteriorated from making a profit of HK$7.8 million in last year to a loss of HK$3.1 million. We managed to keep our bottom-line in black as a result of an exceptional gain from the sales of our investment properties and arrive at a profit before taxation of HK$22.7 million, as compared to HK$9.9 million last year.

Influx of mainland tourists boosted retail industry positively resulting in an improvement in the overall market sentiment. Though retailers of luxury goods particularly in the tourist areas reaped the biggest benefits, we did not feel any substantial upturn in restaurant sales as majority of our shops are being located in residential areas. We still had to offer different privileges and discounts to attract patronage. As a result, we only experienced marginal growth in sales of 2.5% over the previous year. At the same time, rising raw material costs inevitably ate into our gross margin which dropped from 70.3% to 69.9% this year.

Following the sales of our investment properties which were completed in the first half year, we recognized a total capital gain of HK$24.2 million. At the same time, we ceased receiving rental income which total amount was reduced by HK$2.9 million as reflected in a 29.2% drop in other revenues.

With volatility in the labour market started to pick up as the economy continued to improve, there was pressure to adjust the pay rate upwards for skilled labour. Nevertheless, we've striven to minimize our overall staff costs to a mere rise of 5.1%. Increase in staff costs is mainly due to reversal of an overprovision in long service payments liability in last year of HK$3.4 million against an additional provision of HK$0.6 million in current year.

The property market boom has created significant operating pressure to our restaurants as our occupancy costs will unavoidably be raised when we negotiate for lease renewal with landlords. In this year we have renewed leases for 10 shops and the average rate of increase in rent for the renewed leases was 9.2%. Apart from that, the increase in current year is partly attributable to the absence of one-off rent concession offered by landlords over the SARS period.

Depreciation and impairment losses increased significantly by 20.9% because of several reasons: the full year impact of depreciation arising from renovated shops; the accelerated depreciation for some shops upon concluding the short-than-expected lease terms of these shops; and impairment losses provided on some loss-making restaurants.

Our associated company performed satisfactorily having contributed to a profit of HK$1.6 million to the Group. It only operated one Japanese restaurant at fiscal year end date.

Management Discussion and Analysis of the Operations

BAKERY OPERATION

The results of the bakery operation, including inter-company transactions with the restaurant operation, are summarized as follows:

	2005	2004	Changes
	HK$'000	*HK$'000*	*+/(-)*
Turnover	**568,901**	537,516	5.8%
Other revenues	**2,592**	1,702	52.3%
Costs of inventories consumed	**(176,789)**	(158,127)	11.8%
Staff costs	**(174,228)**	(170,163)	2.4%
Operating lease rentals	**(54,296)**	(48,542)	11.9%
Depreciation of fixed assets	**(28,923)**	(29,823)	(3.0%)
Other operating expenses	**(87,272)**	(82,191)	6.2%
Amortization of intangible assets	**(4,600)**	(4,600)	0.0%
Operating profit from ordinary operating activities	**45,385**	45,772	(0.8%)
Gain on disposal of properties	**26,113**	7,159	264.8%
Loss on deemed disposal of a subsidiary	**(39)**	(6,685)	(99.4%)
Profit before taxation	**71,459**	46,246	54.5%
Shop area – sq. ft. at year end	**72,000**	70,000	
No. of bakeries at year end	**78**	73	
No. of eateries at year end	**2**	2	

Management Discussion and Analysis of the Operations

BAKERY OPERATION
(continued)

Even though the economy of Hong Kong had improved, our core cake and bread business did not benefit much out of it. Our customers were still very reluctant to spend more on daily necessities. We had tried to reduce the discounts given to our customers in order to compensate for the effect of rising raw material prices and our turnover was affected. Turnover of cake and bread products grew by about 3% only. On the other hand, we had accurately foreseen that customers would be more willing to spend more for gift items and captured a sizable share of this market with the launch of additional festive product lines such as the new flavors of “snowy” mooncakes. Turnover of our festive products recorded a growth of 26.2%. With the economy returned to a slight inflationary state, we felt the crunch of cost pressure. Nevertheless, our production lines in Shenzhen have sheltered us to some extent our exposure to rising labour costs. With the improved economy, the landlords were asking for a higher rent at the time of lease renewal resulting in a double-digit increase in our occupancy expenses.

We made use of the proceed from the disposal of a property in Macau for greater market penetration there. 2 new outlets were opened before end of the fiscal year with 2 more to come on the schedule. A new factory with the capacity to support more outlet growth has been in place since December 2004.

Our festive products are apparently perceived to be of better quality over our rivals in PRC and their turnover posted a 80% growth. 2 new outlets have been added in Guangzhou while the existing outlets are showing continuous growth in daily cake and bread products. In order to support the turnover growth there, a new factory was commissioned by March 2005 and we can now concentrate on sourcing for suitable locations to expand our outlet chain there.

LIQUIDITY AND CAPITAL RESOURCES

At 31 March 2005, the Group had freely-held cash on hand which amounted to about HK$295.6 million (2004: HK$253.8 million) and zero gearing. Approved capital commitments in the next financial year are estimated to be about HK$35.9 million, mainly for the expansion of bakery production capacity and its retail network. These projects will be financed internally and there is no immediate need for external fund raising.

Management Discussion and Analysis of the Operations

EMPLOYEES AND REMUNERATION POLICIES

At 31 March 2005, the Group had a total of 3,120 (2004: 2,878) full time employees of which 720 (2004: 519) staff were based in PRC and Macau. Employees' remuneration package was determined with references to prevailing market practices and individual performance. Remuneration package includes basic salaries, sales incentives (which are only payable to some operational staff), medical and retirement benefit schemes. Discretionary bonus may be granted to eligible employees based on the performance of the Group and individual employees. Though the share option schemes of the Company and its listed subsidiary, Saint Honore Holdings Limited ("SHHL") had become invalid since 2001, there were still some share options previously granted under these schemes that remained unexercised at the year end. The details of the share options are set out in the section headed "Share Options" in the report of the directors.

PLEDGE OF ASSETS

No assets were pledged throughout the year.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The Group conducts most of its business transactions in Hong Kong dollars and Renminbi ("RMB"). At 31 March 2005, the Group did not have any outstanding RMB forward exchange contracts (2004: HK$23.0 million). In view of a possible RMB revaluation after fiscal year end, the Group has since committed HK$40.0 million in RMB forward exchange contracts which will all expire within the next fiscal year.

CONTINGENT LIABILITIES

The Group had no significant contingent liabilities at 31 March 2005.

Appetizer....

Soup........

Salad........

Main Course.....

Dessert.....